ANNUAL REPORT FOR THE YEAR ENDED SEPTEMBER 30, 1977

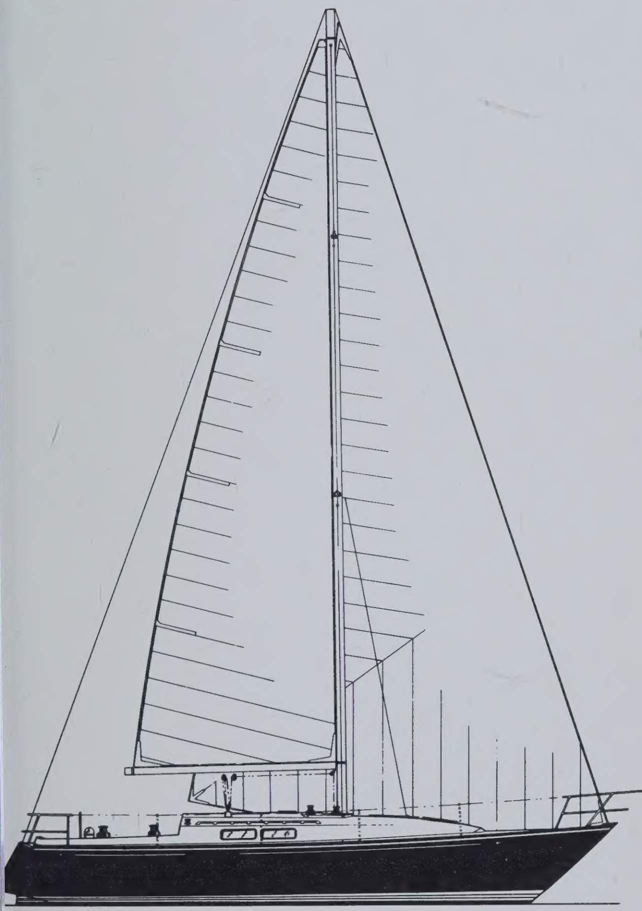
C&C YACHTS

Wholly owned subsidiaries

C&C Yachts Manufacturing Limited

C&C Yachts Inc.

C&C Yachts GmbH



C&C 36 - now in production

File

C&C YACHTS

C&C Yachts Limited
Financial Report for the
Six Months Ended 31 March, 1977

Consolidated statement of earnings (unaudited)

	For the Six Months Ended March 31	
	1977	1976
Sales	$8,327,000	$6,776,000
Cost of sales	7,279,000	5,383,000
Gross profit	1,058,000	1,393,000
Expenses	1,732,000	1,113,000
Earnings (loss) before income taxes and extraordinary item	(674,000)	280,000
Income taxes (recoverable)	(297,000)	123,000
Earnings (loss) before extraordinary item	(377,000)	157,000
Sale of land (net of tax)	—	154,000
Net earnings (loss) for the period	$ (377,000)	$ 311,000
Earnings per share		
Before extraordinary item	(38 cents)	17 cents
For the period	(38 cents)	33 cents

Consolidated statement of source and use of funds (unaudited)

	For the Six Months Ende[d] March 31	
	1977	1976
Source of funds		
Income (loss) before extraordinary item	($ 377,000)	$ 157,00
Depreciation and amortization	332,000	175,00
Provided from (used in) operations	(45,000)	332,00
Proceeds from sale of land (net of tax)	—	328,00
Drawdown of funds held in trust for plant construction	—	547,00
Proceeds of long term debt	697,000	1,150,00
	652,000	2,357,00
Use of funds		
Purchase of fixed assets	804,000	1,069,00
Charges to other assets and deferred expenses	75,000	93,00
Reduction of long term debt	39,000	19,00
Dividend	118,000	114,00
	1,036,000	1,295,00
Increase (decrease) in working capital	($ 384,000)	$1,062,00

To the Shareholders

Circumstances which existed through the latter half of 1976 and reported previously, continued through the first two months of 1977. Second quarter operations resulted in a loss of $107,000, and a year to date loss of 38¢ per share. Margins however, improved throughout the second quarter. Shipments were heavy during March and profitability was restored. Prospects for a strong third quarter continue as finished product inventories are almost entirely committed; and present high levels of production are likely to continue through the fourth quarter as backlogs extend into the Fall.

The period since mid 1976 has been very difficult for our industry throughout North America, and particularly in Canada. Several major firms have ceased operations. High labour costs have exacted their toll but fundamental seems to have been an overabundance of suppliers seeking to exist in the limited Canadian market. Excluding retail operations, our sales for the last 12 months were as follows:

Canada	32.3%
United States	56.9%
Europe	10.8%

This geographic diversification reduces our dependency on any one market area.

All three lines are operating in Rhode Island, but not yet a[t] peak efficiency. The new plant in Kiel, West Germany, is nearing completion and occupancy is scheduled for the last week in June. While too late for positive contribution in this fiscal year, the organization is in place and our two dozen European employees include all the requisite functions and trained labour nucleus. Initial product is the C&C 30E, seven already having been delivered from our temporary training facilities with early plant production totally sold.

We have now been through the heaviest burdens of our program for major increase of productive capacity which we embarked upon two years ago. Though the start-up operation at Kiel remains ahead, return of market strength coincident with new model introductions allows us to look to the last half of this fiscal year and the commencement o[f] next with some optimism.

George H. Cuthbertson
President

Oakville, Ontario

C&C Yachts Limited
1226 White Oaks Boulevard
Oakville, Ontario

WHOLLY OWNED SUBSIDIARIES
C&C Yachts Manufacturing Limited
C&C Yachts Inc.
C&C Yachts GmbH
C&C Yachts GmbH & Co. Kg.

DIRECTORS
Alan F. B. Taylor
George H. Cuthbertson
Peter J. M. Bloemen
Erich K. L. Bruckmann
Michael F. K. Carter
J. Robert Forsey
Christopher D. Hyde
Robert R. Sale
Bruce A. Sully

OFFICERS
Alan F. B. Taylor
Chairman of the Board

George H. Cuthbertson
President and
Chief Executive Officer

Rob W. Ball
Vice-President

Gordon W. Brinsmead
Vice-President

Erich K. L. Bruckmann
Vice-President

Michael F. K. Carter
Vice-President and
Secretary-Treasurer

J. Robert Forsey
Vice-President

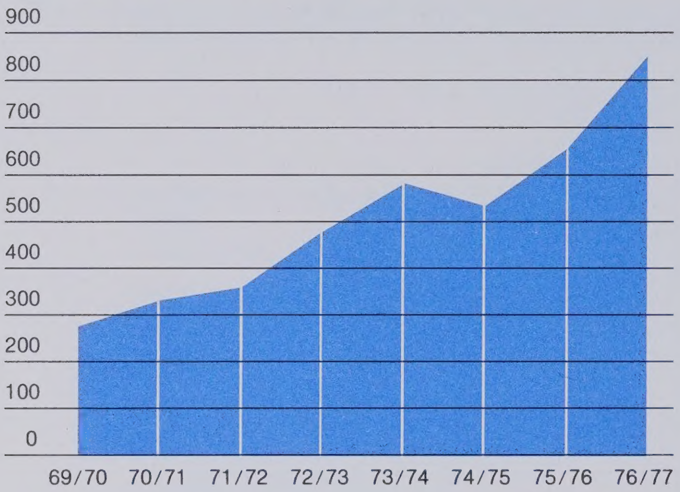
AUDITORS
Coopers & Lybrand,
Chartered Accountants
145 King Street West, Toronto

LEGAL COUNSEL
Messrs. Miller, Thomson,
Sedgewick, Lewis & Healy
7 King Street East, Toronto

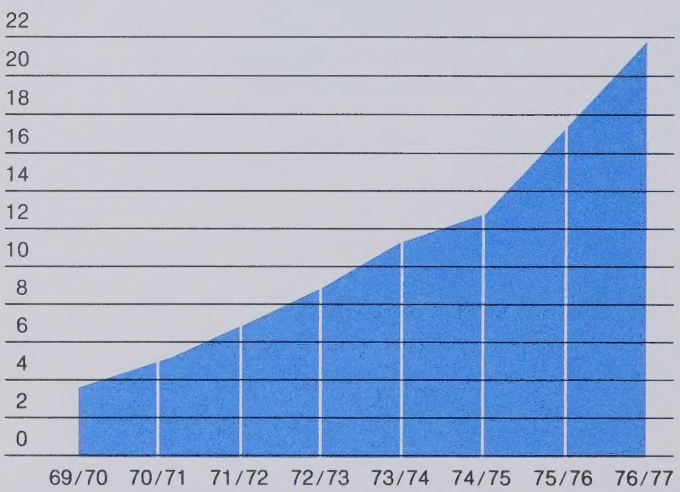
TRANSFER AGENT
AND REGISTRAR
Royal Trust Company
Toronto & Montreal

Report of the President to the Shareholders

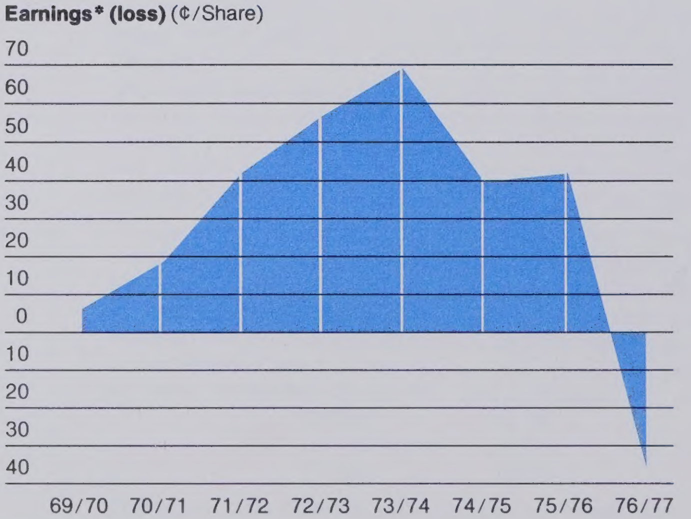
Unit Sales (Units)



Dollar Sales ($ Million)



Earnings* (loss) (¢/Share)



*excluding extraordinary items

This was a year of physical accomplishment and fiscal disappointment. In the early months, the high inventories of a year ago continued to burden our operations and not until the third quarter was this problem finally eliminated. Sales continued high through the spring and summer and third quarter profitability appeared likely to continue through the closing months. Such was not to be, as our major plant in Niagara-on-the-Lake was closed by strike action on August 25 and remained shut down through September and into the new fiscal year—a total of seven costly weeks.

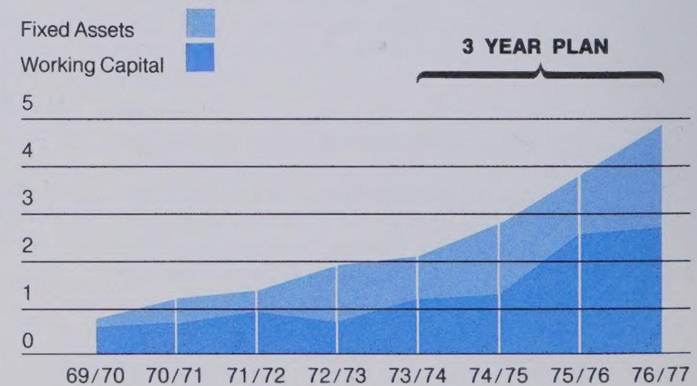
The end result was a loss of 35¢ per share on sales of $22 million. Market share was maintained, in fact enhanced. Closing inventory of finished yachts was down to 47% of the level of a year ago, but profitability for the year as a whole was not achieved.

Direct cost of the strike in Niagara is estimated at $300,000 before taxes. The eventual outcome was a two-year contract that includes no general increase but continues cost of living allowance. The wage scale in our Canadian plants continues to be the highest in the industry. We have been able to offset wage costs to date by manufacturing efficiencies and positioning our products at the top of the market, but the pressures on margins have mounted over the past three years and have taken a steady toll in earnings.

These factors, coupled with the experiences of the late summer, have highlighted the risks of depending on one plant alone and reinforce the decisions taken several years ago to augment our strength in Canada with manufacturing capability in foreign markets. In 1974 we embarked upon a three year growth program which was completed with the opening last August 15 of our plant in Kiel, West Germany.

- The Rhode Island plant closed the year operating profitably as production flowed steadily.
- The company's long established retail outlet in Oakville enjoyed its best year with sales in excess of $5 million and a good earnings record; the newly established sister outlet in Chicago ended its first year profitably with sales exceeding $1 million.
- In mid year our warranty period was extended to 10 years, a term unique in our industry.
- Weakness of the Canadian dollar increased the competitiveness of the company's products in the United States and enabled us to limit price increases. This was partially offset by the fact that much of our material is imported.

Although we have experienced a year without immediate returns, the balance sheet shows the fundamental strength which exists as shown by fixed assets now close to $5 million and increased working capital.



Manufacturing

Niagara-on-the-Lake

With Niagara operations slowed down early in the year and shut down in the last quarter, production fell 15% short of budget, and overheads were not fully absorbed. Further erosion of margins resulted from the severe winter forcing unusually high shipments in a short time span during spring—95 boats in May alone.

Introduction of three new models produced heavier start-up costs than in prior years, aggravated by some development difficulties and unforeseen tooling expenses. These factors eliminated, the Niagara plant enters the new fiscal year with inventories low, with no further model changes scheduled, and with a new labour contract.

Rhode Island

The Middletown plant was subject to some of the same factors which hampered Niagara performance. In addition, re-staffing and training was necessary following partial shut down in the fall of 1976.

The first three quarters all recorded losses but product quality and productive efficiency steadily improved as the year progressed.

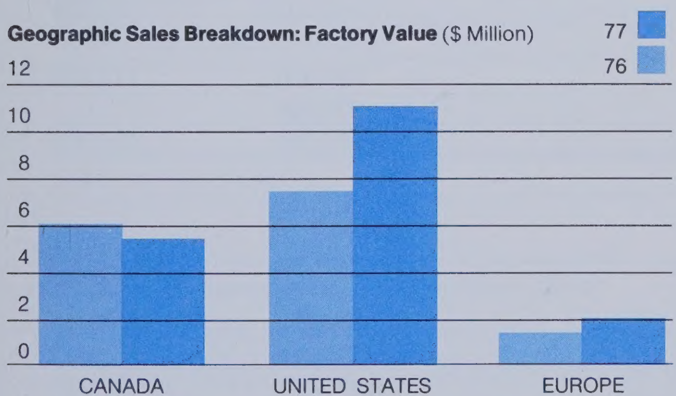
West Germany

The Kiel plant opened six weeks prior to our fiscal year end, and with it the character of our European activities changed fundamentally. The former relationship with Oy Baltic Yacht Ab of Finland was concluded, but we continue to function as their dealer in West Germany; our Design Group continues to serve them on a conventional royalty basis.

Our European presence which had been of an exploratory and sales nature, is now a modern and efficient yacht building operation, albeit modest in size compared to its North American counterparts. Cost and investment parameters were achieved as planned.

While profits are not foreseen in the first year of operation, the heavy costs borne to date in opening this market are now behind us and we commenced amortizing start-up costs against revenues in October, 1977.

Geographic Sales Breakdown: Factory Value ($ Million)



Geographic breakdown shows that 67% of our North American sales were accomplished in the United States which contrasts with 55% a year ago.

Design and Development

The continued increase in production capability has dictated a fresh approach to the design and development of new product. In a move to ensure the consistency of design and production quality across all facilities, a new group was formed during 1977 to unite existing design, product development, research and tooling functions. The Design and Development Group, utilizing the Oakville plant, began its first program with the C&C 34. Following tests of a sailing prototype, detailed design and tooling were undertaken. The Mega 30 and C&C 40 are now following a similar cycle.

Mega 30. This new and innovative design was developed in conjunction with North Sails Inc. of Pewaukee, Wisconsin, who have 20 sail and service lofts throughout the world. Mega 30 is the subject of a joint C&C/North international marketing program and the intention is to build initially in a leased 23,000 sq. ft. plant in Oakville, Ontario, augmented in early 1978 by one line in the Rhode Island plant and one line in Kiel. Appeal for the racing sailor will be found in Mega 30's high performance with strict one-design controls through international class organization. The more casual yachtsman will be attracted by her good handling, adjustable draft and trailerability, coupled with livability for four. The combination is unique and Mega 30 owners undoubtedly will be found on all sailing waters including those lakes of mid America and southern Europe where the most rapid growth in sailing is now taking place.

In addition to the development responsibility, custom yacht production remained at a high level with 25 units, including 17 C&C Landfall 42's and eight custom boats. At year end, a new challenger for the 1978 Canada's Cup was in an advanced stage of construction. To be named "Evergreen", she will make her debut in February in the Southern Ocean Racing Conference.

Other completed design projects included the C&C 34 and C&C 36 for our production plants, new 39-foot design for Oy Baltic Yacht Ab, and a 34-footer for a New Zealand builder. The company continued its relationship with Boston Whaler with the design of the new Harpoon 4.6—the second in their day sailer series.

After elimination of inter-company transactions, this group achieved good profitability on high sales.

Retail Operations

Our flagship operation in Oakville, Ontario, continued to prosper and the effect of additional brokers on staff was noted as sales increased again together with return on investment.

In its first year our new Chicago outlet doubled anticipated sales and is firmly established as the premier dealership for new sailing craft in the area. Repeat business is already being enjoyed and additional product lines are being selected.

The demands made on our employees this year have been heavy. Their hard work, and the support of our customers, suppliers and shareholders, are gratefully acknowledged.

I must note, with regret, the decision taken by Mr. Alan F. B. Taylor to retire from Chairmanship of our Board of Directors, a position he has occupied with dedication and distinction since 1971. During his tenure, the company's operations have quadrupled. His contributions cannot be measured and I take this opportunity to record sincere thanks.

Submitted by George H. Cuthbertson, President

C&C YACHTS LIMITED

Consolidated balance sheet as at September 30, 1977

ASSETS	1977	1976
CURRENT ASSETS		
Cash	$ 26,000	$ 10,000
Accounts receivable	1,572,000	1,267,000
Inventories (note 2)	4,170,000	5,656,000
Income taxes recoverable	285,000	—
Deposits and prepayments	102,000	259,000
	6,155,000	7,192,000
Mortgage receivable	252,000	352,000
Fixed assets (note 3)	4,898,000	3,820,000
Other assets and deferred expenses (note 4)	562,000	556,000
Excess of cost of shares in subsidiary companies over net book value at date of acquisition	2,493,000	2,493,000
	14,360,000	14,413,000

LIABILITIES		
CURRENT LIABILITIES		
Bank indebtedness (note 5)	1,626,000	2,410,000
Accounts payable and accrued liabilities	1,251,000	1,405,000
Deposits from customers	292,000	503,000
Long term debt due within one year	284,000	93,000
Income taxes	—	154,000
	3,453,000	4,565,000
Long term debt (note 6)	4,290,000	3,057,000
	7,743,000	7,622,000
Deferred income taxes	277,000	218,000
Grants on construction of Kiel plant (note 7)	230,000	—
	507,000	218,000

SHAREHOLDERS' EQUITY		
Capital stock Authorized 2,000,000 common shares Issued 986,000 common shares	3,953,000	3,953,000
Retained earnings (note 8)	2,157,000	2,620,000
	6,110,000	6,573,000
	14,360,000	14,413,000

Signed on behalf of the board:

Robert Cort Director   George H. Cuthbertson Director

Consolidated statements of earnings and retained earnings for the year ended September 30, 1977

STATEMENT OF EARNINGS	1977	1976
Sales	$21,986,000	$17,037,000
Cost of sales (note 9)	19,553,000	14,042,000
Gross profit	2,433,000	2,995,000
Selling and administrative expenses (note 9)	2,482,000	1,983,000
Interest expense—short term debt	202,000	86,000
long term debt	377,000	238,000
	3,061,000	2,307,000
Earnings (loss) before income taxes and extraordinary items	(628,000)	688,000
Income taxes	(283,000)	289,000
Earnings (loss) before extraordinary items	(345,000)	399,000
Extraordinary items	—	410,000
Net earnings (loss) for the year	(345,000)	809,000
Earnings (loss) per share		
Before extraordinary items	(35 cents)	41 cents
For the year	(35 cents)	84 cents

STATEMENT OF RETAINED EARNINGS		
Balance—beginning of year	2,620,000	1,925,000
Net earnings (loss) for the year	(345,000)	809,000
	2,275,000	2,734,000
Dividend	118,000	114,000
Balance—end of year	2,157,000	2,620,000

AUDITOR'S REPORT TO THE SHAREHOLDERS

November 30, 1977

We have examined the consolidated balance sheet of C&C Yachts Limited as at September 30, 1977 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at September 30, 1977 and the results of its operations and the changes in its financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Coopers & Lybrand Chartered Accountants

Consolidated statement of changes in financial position for the year ended September 30, 1977

SOURCE OF FUNDS	1977	1976
Provided from operations—		
Earnings (loss) before extraordinary items	$ (345,000)	$ 399,000
Items not affecting working capital—		
Depreciation	535,000	548,000
Amortization	140,000	96,000
Deferred income taxes	59,000	38,000
	389,000	1,081,000
Proceeds of long term debt	1,470,000	1,650,000
Grants on construction of Kiel plant	230,000	—
Current portion of mortgage receivable	100,000	—
Proceeds of disposal of land (net of tax)	—	782,000
Issue of common shares	—	88,000
	2,189,000	3,601,000

USE OF FUNDS		
Purchase of fixed assets	1,613,000	1,290,000
Other assets and deferred expenses	146,000	318,000
Reduction of long term debt	237,000	141,000
Dividend	118,000	114,000
Mortgage on sale of land	—	352,000
	2,114,000	2,215,000
Increase in working capital	75,000	1,386,000
Working capital—beginning of year	2,627,000	1,241,000
Working capital—end of year	2,702,000	2,627,000

Notes to consolidated financial statements for the year ended September 30, 1977

1. ACCOUNTING POLICIES

The following is a summary of the significant accounting policies followed by the company:

a) Principles of consolidation

The consolidated financial statements include the operations of all subsidiary companies. In consolidation, all material inter-company accounts and transactions are eliminated.

b) Foreign exchange

Assets and liabilities in foreign currencies are translated as follows:
Current assets and liabilities at approximate year end rates; long term assets and liabilities at rates prevailing at date of transaction; income and expenses at the average rate of exchange in effect during the year.

c) Inventory valuations

Finished yachts and yachts in process are valued at the lower of cost and net realizable value. Raw materials and supplies are valued at the lower of cost or replacement cost, with cost determined on the first-in, first-out basis.

d) Depreciation

The company depreciates the cost of its buildings, machinery and equipment over their estimated useful lives by annual charges to operations, using the reducing balance method at the following rates:

Buildings	5 percent
Machinery and equipment	20 percent
Automotive equipment	30 percent

Mould costs are charged to operations over the estimated marketing life of the model on a straight line basis.

e) Research and development

Research and development expenditures are charged to income as incurred.

f) Deferred expenses

Costs related to start-up and financing of new manufacturing facilities are deferred and amortized. Start-up costs for the plant in Kiel, West Germany, amount to $193,000 and are being written off over an 18 month period commencing in October, 1977. Financing costs are amortized over the life of the loan to which they relate.

2. INVENTORIES	1977	1976
Finished yachts	$1,219,000	$2,563,000
Yachts in process	769,000	609,000
Raw materials and supplies	2,182,000	2,484,000
	4,170,000	5,656,000

3. FIXED ASSETS

	1977			1976
	Cost	Accumulated depreciation	Net	Net
Land	$ 434,000	$ —	$ 434,000	$ 334,000
Buildings	3,185,000	479,000	2,706,000	2,016,000
Machinery and equipment	1,362,000	556,000	806,000	748,000
Moulds	1,061,000	299,000	762,000	521,000
Leasehold improvements	225,000	35,000	190,000	201,000
	6,267,000	1,369,000	4,898,000	3,820,000

4. OTHER ASSETS AND DEFERRED EXPENSES	1977	1976
Loan to shareholder trust	$ 85,000	$ 88,000
Funds in trust for service of Rhode Island debt	164,000	164,000
Unamortized financing costs	107,000	102,000
Deferred start-up expenses	193,000	201,000
Other	13,000	1,000
	562,000	556,000

5. BANK INDEBTEDNESS

Bank indebtedness and bank loans are secured by general assignments of book debts, specific charges on the mortgage receivable and certain fixed assets, and floating charge debentures over the remaining assets of the company and its subsidiary companies.

6. LONG TERM DEBT

			1977	1976
C&C Yachts Limited				
Term bank loan—deutsche marks	842,000	(note 5)	$ 370,000	$ —
C&C Yachts Inc.				
Rhode Island Port Authority 8%				
Industrial Revenue Bonds	US$1,465,000	a)	1,509,000	1,548,000
Revolving bank loan	US$1,000,000	(note 5)	986,000	500,000
C&C Yachts Manufacturing Limited				
Term loan 12¾%		b)	1,045,000	1,102,000
C&C Yachts GmbH				
Mortgage 7.636%—deutsche marks	1,267,000	c)	574,000	—
Loan interest free—deutsche marks	200,000		90,000	—
Total amount outstanding			4,574,000*	3,150,000
Less: due within one year			284,000	93,000
			4,290,000	3,057,000

*As stated in note 1, the long term debt in foreign currencies is translated at the rate prevailing at date of transaction. If the debt were translated at year end rates, the total amount outstanding would be $4,792,000.

a) In 1975, the Rhode Island Port Authority purchased land and constructed a plant for the company at Middletown, Rhode Island. The Authority financed the plant by the issue of bonds repayable in instalments over a 20 year period. C&C Yachts Inc. rents this facility on a net lease basis for annual payments sufficient to fully service the debt, and will purchase the facility for $1 on repayment of the debt. C&C Yachts Limited and C&C Yachts Manufacturing Limited have guaranteed the obligations of C&C Yachts Inc. under this agreement. Under terms of the financing agreement, an amount equal to one year's debt service is required to be deposited with the trustees.

The company is accounting for the transaction as a purchase of assets and issue of debt.

b) Secured by mortgage on land, buildings and equipment at that company's plants in Niagara-on-the-Lake and Oakville, Ontario, and a subordinated floating charge and guaranteed by C&C Yachts Limited. Due December, 1980.

c) Secured by first mortgage on land, buildings and equipment at that company's plant at Kiel, West Germany.

d) Principal repayment requirements on long term debt over the next five years are as follows:

	Cdn.$	U.S.$	Deutsche marks
1978	57,000	123,000	219,000
1979	58,000	240,000	345,000
1980	58,000	245,000	346,000
1981	872,000	250,000	330,000
1982	—	172,000	68,000
1983 and beyond	—	1,435,000	1,001,000
Total	1,045,000	2,465,000	2,309,000

Of these amounts a total of US$1 million relates to the revolving bank loan which may be extended at the option of both parties or converted into a five year term loan.

7. GRANTS ON CONSTRUCTION OF KIEL PLANT

These grants were provided to C&C Yachts GmbH and will be taken into income over the life of the Kiel plant and equipment.

8. DIVIDEND RESTRICTION

The company is subject to restraint of dividends as a result of the Federal Anti-Inflation Program which limits dividends which the company may declare in the next year to a maximum of 25% of net earnings for the year ended September 30, 1976 of $809,000.

9. RECLASSIFICATION

The 1976 figures for cost of sales and selling and administrative expenses have been reclassified to conform with 1977 disclosure.

10. REMUNERATION OF DIRECTORS AND OFFICERS

Remuneration paid by the company and its subsidiary companies to the directors and senior officers (as defined by The Business Corporations Act) was $220,000 in 1977 ($316,000 in 1976).

Head Office

C & C YACHTS LIMITED
1226 White Oaks Boulevard
Oakville, Ontario L6H 2B9

Manufacturing Subsidiaries

C & C YACHTS
MANUFACTURING LIMITED
526 Regent Street
Niagara-on-the-Lake
Ontario L0S 1J0
100,000 Sq. Ft.

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27,000 Sq. Ft.

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53,000 Sq. Ft.

C & C YACHTS GmbH
C & C YACHTS GmbH & Co. Kg.
Bunsenstrasse 1
2300 Kiel 14
West Germany
27,000 Sq. Ft.